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Lionberger, Isaac Henry

Convalescence

St. Louis

1921

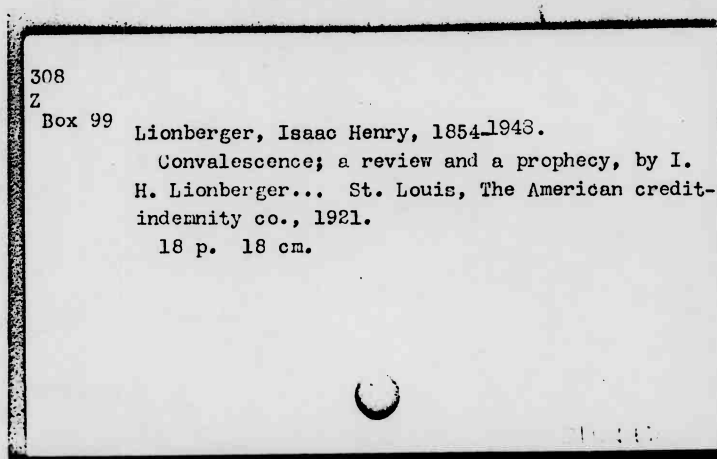
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CONVALESCENCE

A Review and a Prophecy

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By
I. H. LIONBERGER
CHAIRMAN AMERICAN CREDIT-INDEMNITY CO.

Published by
THE AMERICAN CREDIT-INDEMNITY CO.
ST. LOUIS, MO.
1921

Copies to be had of the Company on Application

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CONVALESCENCE

To listen attentively, mark what men say, remember their predictions and observe the events which follow—these are perhaps the means whereby we may arrive at that small measure of wisdom which is vouchsafed to us. Few of us were competent at the time to understand the economic consequences and remoter effects of the war. Now that the wind has ceased, although the waves are still tumultuous, we may perhaps appraise the forces at work and the ruin wrought, and calculate the cost of reparation.

If we look back, we shall discover that we were often mistaken. In 1914-15 our commerce was arrested, many industries were paralyzed and we were overwhelmed by despondency; yet in the year 1916 began a period of feverish prosperity more intense and more profitable than any in our history.

In 1919 so great was the demand for goods that propaganda was scattered broadcast beseeching men to increase production and check extravagance; yet in 1920 we discovered that our real affliction was not scarcity but overproduction.

During the boom we complained loudly of high prices and persecuted the profiteers, but

CONVALESCENCE

after the boom collapsed we tried our best to stabilize prices by restricting hours of work and curtailing production.

For a century it had been gospel among us that the national prosperity depended upon the amount whereby our exports exceeded our imports, yet after many years of an exceedingly "favorable" balance of trade, we were overwhelmed by calamity and began to beseech Congress to protect us against the necessary effects of such exportation.

We had been taught, and for a century a majority of us believed, that the highly paid workman of America could not compete with the pauper labor of Europe; yet when our excessive exports to Europe began to decline, we were surprised and offended.

During the era of high prices everybody insisted that as prices depended upon cost and cost on wages, prices could not be reduced until wages should be cut; but prices fell swiftly and greatly without regard to cost, and then only did wages yield.

Since 1913 men have said the prosperity of trade depends upon an adequate supply of money, yet when money was most abundant trade suddenly collapsed. For years we were

CONVALESCENCE

told that the reserve banking system would protect us against the revulsions which had overwhelmed the prosperity of our ancestors, yet since 1914 we have had two crises, one brief, the other prolonged and injurious in the highest degree. Not long ago we were confident that we should no longer be pestered by pinches in the money market, but rates of interest have recently been higher for a longer period of time than ever before. We were clamorous in our demands for enough credit to finance crops, yet when such credits became frozen we formed finance corporations to ease the load of the banks. For a time everybody rejoiced because we had not only paid all of our debts to Europe but had become a creditor nation; yet in a delirium of apprehension we passed in 1921 an emergency tariff law to prevent foreigners from paying their debts to us.

When the boom was at its crest men declared that a new era of high prices, great profits, high wages and high living had succeeded to the dreary moderation of former times; but even while traders were rejoicing, prices tumbled, wages fell, profits vanished, trade became dull and millions lost employment.

These and other like discrepancies between prophecy and fulfillment, between the expected

CONVALESCENCE

and subsequent events, should induce us to accept with a certain caution even those interpretations of current affairs which seem most plausible. Today we are confronted by many perplexing considerations: falling prices, dull trade, falling wages, frozen credits, high rates of interest, increasing insolvency, unemployment, high rents, scarce capital, crippled transportation, universal distress; and these afflictions have come to us notwithstanding that Europe owes us an enormous sum of money and that our own markets are glutted with goods.

Before venturing to interpret such a situation it is worth while to attempt to discover why we were so often mistaken in the past. Facts, tendencies and forces unperceived by us between 1914 and 1920 are now evident. In 1914 we did not realize the naval supremacy of England. In 1915 we did not anticipate the excessive waste of the war and the urgent need of the belligerents for all the goods we could make; in 1918 we ignored the needs of people exhausted by years of strife for goods which they could not immediately produce for themselves; in 1920 we failed to understand the necessary consequences of a return by our foreign customers to productive industry, nor even so simple a thing

CONVALESCENCE

as that when the demand for goods is suddenly arrested the price of goods and the wages of labor must fall. We blundered in 1919-20 because we omitted to consider a cardinal principle of trade, namely that an economic demand for goods depends upon the prices asked for them. We forgot also that overproduction may mean no more than that expensive goods cannot be sold at cost, and that an excessive demand caused by excessive extravagance must relax as soon as extravagance is arrested. While we were denouncing the profiteer, we did not consider that in time of waste he deserves praise rather than censure who checks extravagance by rapacity. When we attempted to stabilize prices, we were foolish enough to think that men who lacked the means to buy could somehow be coerced into affluence. Those who taught the doctrine called "favorable balance of trade" did not understand that such a balance, however favorable it might be while we were paying debts or the interest upon our debts to other countries, was bound to become "unfavorable" as soon as they began paying their debts to us. The notion that highly paid American workmen cannot compete with the pauper labor of Europe disregarded the evident fact that the laborers of Europe are "paupers" because they

cannot compete with the more efficient workmen of America. Those who insisted that prices must remain high while cost and wages are high, forgot to consider that it takes two to make a bargain and that one having but two dollars to spend cannot pay four dollars for goods. In 1919 we thought money makes the mare go, but in 1920 we realized that although inflation may for a time stimulate, it cannot long sustain trade, and that while it may afford credit wherewith to buy during a period of advancing prices, it cannot afford means to pay during a period of falling prices. The promise of the reserve system that we should have cheap money and prosperity was predicated upon the notion that rates of interest depend upon the supply of credit and not upon the use made of credit.

These were the blunders of the past. As we review them, we can almost perceive why we were mistaken in every emergency, and it is not impossible that today, fortified by such instruction, we may be able to discern the influences now operating to induce the situation of today. The origins of that situation are obvious. Trade is dull because Europe has ceased to buy on credit and goods produced for it, cannot be disposed of. We lack a home market for goods because buyers cannot afford

to pay the prices demanded for them. Falling prices are the normal effect of these influences. Goods that cannot be sold at cost must decline in market value. Insolvency we know to be the effect of forced selling at less than cost in order to pay debts already incurred. Falling wages and unemployment are the obvious results of dull and unprofitable trade. High rents are due to the enormous cost of building, artificially maintained by the labor unions and combinations of material men and contractors. Frozen credits mean no more than that men will not sell goods for less than cost to pay debts incurred to buy such goods. High rates of interest are due to the exhaustion of the capital resources of the country by the waste of war, the demands of Europe and the borrowing of the public authorities in this country.

If, keeping an eye upon the blunders of the past, we try to interpret the present situation, it seems very simple, yet it is by no means easy to determine what we should do in the present emergency. Perhaps before deciding what to do, we should find out what we cannot do.

We cannot compel Europe to buy what it cannot pay for, nor can we give to others means to buy what they cannot afford to buy, nor can we force men to pay for goods more than

CONVALESCENCE

they think the goods are worth. If a market for goods at cost cannot be found, we cannot restore to solvency those who have been imprudent, neither can we by extending further credit to those who are actually insolvent do more than prolong their agony. It is impossible to pay more wages than a workman can earn by his work. We cannot force prudent men to build dwellings at a cost which will not be remunerative. We cannot cure credits frozen by misfortune or stupidity, by purchasing goods for more than they are worth without taking over an inevitable loss and stepping into the shoes of those who now refuse to do what must be done.

I know there are those who say we should create credit corporations to buy goods for shipment out of the country, but how can such corporations find markets which skilled traders cannot find? What sort of superhuman intelligence should we expect from the soulless creature of law that cannot be discovered in men of affairs? Is a politician, an appointee of one in authority, apt to know more of business affairs than one who has passed his life in the actual conduct of such affairs? Is it wise to attempt to force more goods on Europe now, when it owes us billions for goods which it cannot pay? Is it the deliberate desire of

CONVALESCENCE

any thoughtful man to get rid of our redundant stocks of goods by placing them abroad whether they shall be paid for or not? Do any think that by shifting a burden from one shoulder to another we can lessen its actual weight?

Others have proposed and caused to be adopted an emergency tariff, nicely calculated to strangle any incipient effort of foreigners to pay their debts. Surely folly could go no further! Europe cannot pay in gold, it must pay in goods or not at all; and we decline to let it do so.

Still others suggest that we should restore the currency retired since 1920 in order to start the wheels of industry by affording buying power to borrowers; in other words, that we should resort to inflation in order to raise prices. These however forget that while paper money can be profitable used as a medium to buy goods on a rising market, it cannot be so employed to buy goods which must be sold at a loss. The deflation of which many complain was not accomplished by violence. Notes have been retired because under existing market conditions trade had already become unprofitable.

Is then the situation without remedy? A bold answerer might with propriety say yes,

CONVALESCENCE

for neither by laws, nor printing money, nor creating credits, nor any such thing, can we undo the ruin of war, restore solvency to the bankrupt or pay wages which are not earned. We cannot make capital cheap by saying that it shall be so; nor can we make trade profitable by letting men buy what they cannot sell at cost.

Our needs are obvious. Men need work and goods, traders need markets, the community needs capital; yet in order that men may find work, they must be willing to work; in order that traders may find markets, they must offer goods at prices which the community can afford to pay; in order that the community may have capital, taxes must be reduced, the waste of governments must cease and people must save. Nevertheless, to say that the cure for idleness is work, for scarcity is production, for dull trade is cheapness, for high rates of interest is saving, is to add nothing to any man's thinking save that vague resentment which steals over a sufferer when a fool advises him.

Somehow, we must discover how to set men to work, how to persuade traders to make money by selling cheap, how to induce the governments to stay their exactions and the people to save. Is any man, any leader, any statesman, any philosopher among us equal to so great an under-

CONVALESCENCE

taking? I cannot think so. There is none who deserves and commands the universal confidence. One may have the wisdom, but lacking the power of Solomon he cannot persuade selfish men either to think right or act right. For a time at least we must flounder along painfully, acrimoniously, hatefully, mistrusting and criticising and blaming each other. Those of us who are readers can recall the histories of other periods of distress, equal in misery, more hopeless and more afflicting, and also the reassuring fact that all of them ended not merely in the restoration or prosperity, but in greater prosperity than ever before.

Such a comforting reassurance is afforded by the twenty-five years which followed the Napoleonic wars. The London "Annual Register" of 1816 said:

"By the sudden failure of the war demand for a vast quantity of articles which was not compensated by the recovery of any peace market, foreign or domestic, thousands of artisans were thrown out of work and reduced to a state of extreme want and penury."

Yet later, England entered upon the most prosperous period of its national life, called the Victorian Era.

CONVALESCENCE

It is unnecessary to recall the steps by which that nation accomplished its restoration; it is enough to know that want was more distressing, trade was duller, the national debt was heavier, capital was scarcer then than now; yet somehow England was delivered from these afflictions.

The period which followed our own Civil War is equally instructive. Prices began to fall in 1865, there was a money panic in 1869 and a greater panic and a dreadful industrial crisis in 1873; yet after a while we also became more prosperous than ever before. It is true that these events occupied a considerable period of time, yet in the end prosperity was achieved. Perhaps we also shall be required to suffer for a long time, for the instruction of experience is slow and painful; but, as the hope of recovery reconciles a patient to illness, so we may perhaps derive fortitude from the conviction that in time prosperity will return.

The forces, the creative influences which make for rehabilitation, are not altogether hid from us. Want is an urgent stimulus to work, traders may attempt to get for goods more than they are worth but necessity will in time induce fair trading; the politician may tax and squander, but democracies know how to be rid of these pests. There are many wise men among us

CONVALESCENCE

who understand and practice the virtue called prudence, and these are now accumulating capital. Perhaps the most reassuring consideration of all is the fact that among the millions engaged in industry but one-tenth or even less have become actually involved. Failures are ominous, yet the great army of workers is still engaged and wealth is still being produced and distributed. If we will but step aside and let the course of affairs be guided by economic laws, we shall after a little while repair the ruin of war and regain prosperity.

The obstructions to prosperity of which we now most loudly complain are of our own building. The unions will not suffer men to earn their wages; the Adamson law attempts to compel what no man can perform; the rent laws and the court decisions prevent building; the combinations of contractors forbid reconstruction; high railroad tariffs have checked the distribution of goods; the stubbornness of the retailers will not reckon with the diminished resources of their customers; the emergency tariff law has arrested the liquidation of foreign debts; the exactions of the tax-gatherer have prevented the accumulation of capital or compelled its unprofitable investment in non-taxable securities.

CONVALESCENCE

It is in the highest degree significant that after the Napoleonic wars the intelligence of England was devoted not to devising injurious innovations by means of bad laws, but to the clearing away of the obstructions to business which had so long delayed its progress. Its trade was emancipated, its currency was restored to a gold basis and the energy of the nation was let loose to do in its own way those things which mankind needed to have done. We have shackled trade, discouraged saving, prevented building, arrested production and forced idleness. These blunders must be atoned for.

We shall of course recover, but we cannot do so quickly and completely unless we let men alone and leave them free to serve themselves by serving others as men must serve and be served who mean by mutual help to win prosperity. This country is immensely rich in natural resources. It has a numerous population, more industrious, more ingenious and more enterprising than any in all the world; its capacity for and love of useful work is little less than astonishing; its industries are minutely diversified and nicely adjusted to the wants of the community; its desires are without limit; none can doubt its productive capacity. If somehow such a people, in such a country, be emancipated

CONVALESCENCE

and permitted to use their energies as they alone know how to employ them, in a brief—almost an incredibly brief—time all the wheels will be humming, all men will be busy, and wages will advance, and prices will fall, and prosperity will abound.

There are many among us who remember the cheerful cooperation, mutual goodwill, cheapness, and diffused affluence of former times. In order to regain such prosperity we must cease to tax and harry industry, the unions must abandon their tyrannies, traders must wish to serve and commerce must be emancipated; for these and like follies oppress us and stand between us and that mutual, cordial, intelligent, spontaneous cooperation upon which all actual and lasting prosperity must depend.

Certain old principles, reaffirmed from time to time throughout the centuries of human experience, yet always forgotten, have been rediscovered. We can neither fix nor stabilize prices; war wastes, taxes consume wealth; we cannot provide dwellings by vexing landlords; nor sustain trade by inflation; nor afford employment to labor which will not produce its wages; trade always results in the exchange of goods for goods; debts must be paid in goods or services; capital is indispensable to industry; in

CONVALESCENCE

order that men may be free, trade must be free; neither by combinations, conspiracies, trade unions nor otherwise can we accomplish the impossible; the law of supply and demand involves more than is disclosed by the phrase; poor men are poor buyers; after waste comes want.

If by some means all men could be brought to understand these truisms of experience, can any doubt that all the evils which vex us would instantly vanish? The power of the country is titanic. When we work zealously and cordially and generously, each for the other, the results are amazing. Loosed and encouraged, guided by the needs we observe, the productive energy of America might surfeit us with goods. But we cannot understand. Gradually we shall be constrained to mutual service by the stress of necessity. We might have attained the same end quickly, if we have not lacked intelligence.

CONVALESCENCE

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